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ABSTRACT

The argument for corporations to make donations to colleges suggests that corporate support of education has failed to keep pace with the increase in educational costs, the level of corporate profits, and the rate of inflation. For example, corporate support of education in 1969 was at a level of 0.45 percent of corporate pre-tax net income. In 1976 it had declined to a level of 0.35 percent of corporate pre-tax net income even though giving in actual dollars increased in 1976 over 1975 by 22 percent. Giving had not kept pace with the increase in corporate profits. If corporations had been giving at the same percent of pre-tax net income in 1976 as in the late 1960s, their contribution to higher education would have amounted to roughly $700 million. The amount actually provided was about $550 million--21 percent less. Suggested goals for giving are based on the following calculations: (1) nationally, corporations devote 40 percent of their total contributions budget to higher education; (2) an annual goal might be based on the number of college-trained graduates hired during the year, or in 1976 about $1,100 per college graduate entering business employment; (3) in order to reach the same share of educational support as in the 1950s, corporations could increase giving 7 percent each year, plus the inflation factor; (4) 1 percent of profits before taxes is a goal that has been modified appropriately for certain situations, such as insurance, banking, and extractive industries; and (5) 2 percent of profits before taxes for all giving is a goal recommended by the Commission on Private Philanthropy and Public Needs. (CC)

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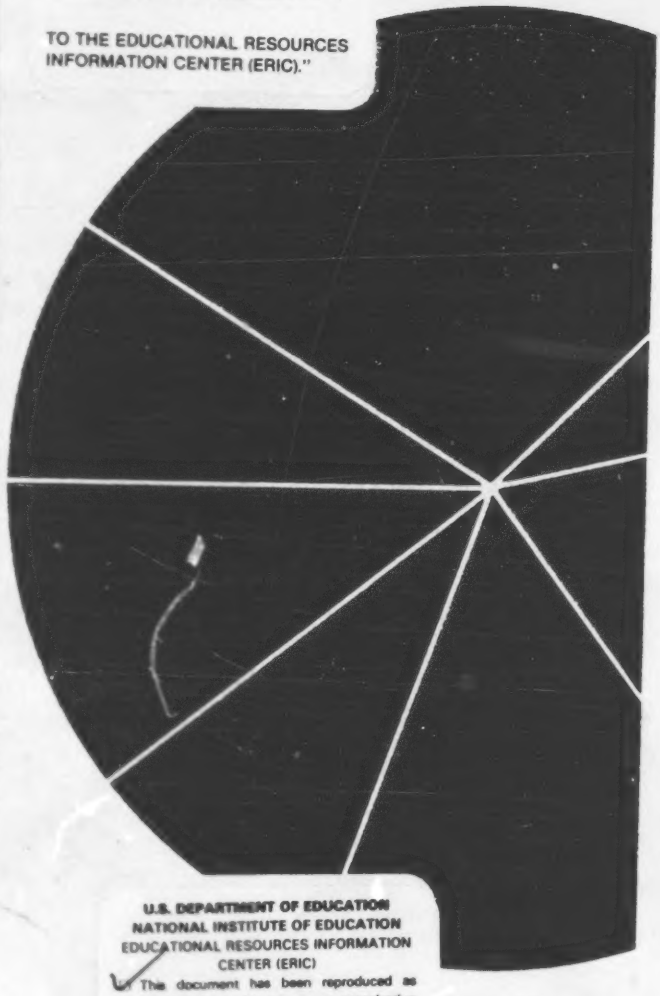

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CFAE Council for Financial Aid to Education

New Goals for Corporate Giving to Higher Education—Why They Are Needed

Despite stringent economies and Spartan cost-cutting, the country's colleges and universities are in serious financial trouble.

Private colleges are threatened

A casual assessment of the independent college or university yields the illusion of good health. This is so because the independent campuses have learned over the years to live stoically under fiscal stringency. At any given moment, however, fully one in four institutions in the private sector is in serious financial difficulty—a condition which, like the measles, seems to be passed around.

But the situation in 1978 suggests a widespread contagion, according to the Association of American Colleges, ready to sap the strength of the most fiscally disciplined campuses. A balanced college budget today can well have been bought at too great a price. If, as is often the case, it results from a policy of deferred maintenance—be it in buildings, salaries, or educational resources—an illness may ensue that can become incurable. Moreover, student enrollments, currently higher than expected in many colleges, may represent only a temporary reprieve; for the '80s will see a serious shrinkage in the pool of traditional students. Further, the ratio of students in the independent sector, now about one out of five, could decline still further as tuition fees—already through the $5,000 barrier—continue to mount, as they must without substantially increased support from philanthropic sources.

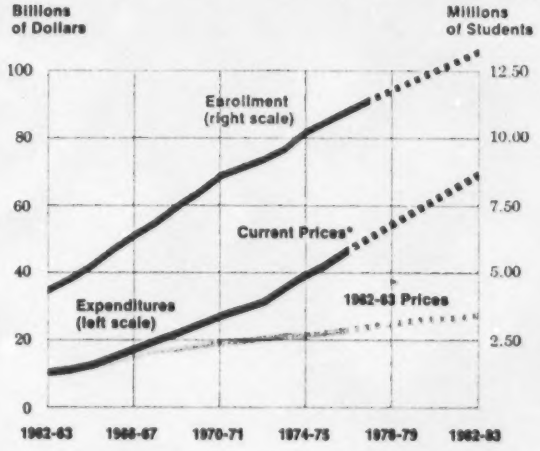
Not only higher education as a whole, but American industry and America itself, need a fiscally strong—and, it follows, an educationally viable—system of independent colleges and universities.

So are public institutions

The prospects for the state and land-grant colleges and universities are not much brighter. There is growing competition for tax dollars to fund new and expanded public services. State legislatures find it increasingly difficult to vote the larger appropriations needed to cover fully all the increases in educational costs. As a result, nearly one-third of the state institutions lost ground, financially speaking, in 1976. Without increased voluntary support, more and more public institutions will be hard pressed to operate at their highest level of excellence.

This financial crisis arises from the recent quantum jumps in the costs of higher education due to 1) the explosion in college enrollments (since 1960) from approximately three million to over eleven million students today, 2) the colleges' assumption of the responsibility for educating large numbers of disadvantaged students whose minimal family incomes and need for special remedial courses require heavy subsidies, and 3) the rampant inflation of the 1970s. This inflation has been especially disastrous for higher education, a labor-intensive activity which demands excellence and individual relationships and is not subject to the mass production savings available to manufacturing industry.

Higher Education:
Enrollment and Total Expenditures



*Projected expenditures in current prices from 1977 to 1983 assume annual inflation at average of 6% per year.

Source: U.S. Department of Health, Education, and Welfare.

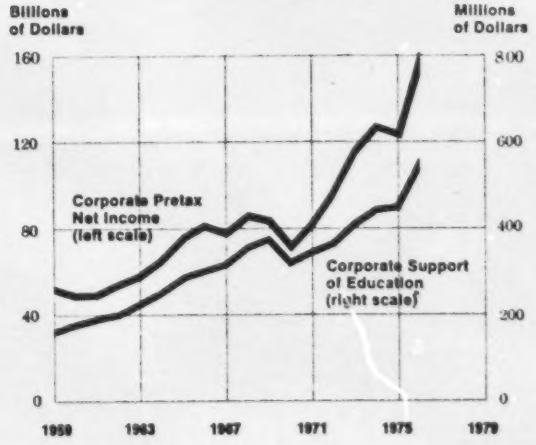
Corporate giving hasn't kept pace

As the financial crisis has increased in severity, corporate support of higher education, while rising in dollar amount, has failed to keep pace with 1) the increase in educational costs, 2) the level of corporate profits, and 3) the rate of inflation.

For example, corporate support of education in 1969 was at a level of 0.45% of corporate pretax net income (PTNI). In 1976 it had declined to a level of 0.35% of PTNI even though giving in actual dollars increased in 1976 over 1975 by 22%. Giving, as previously noted, hadn't kept pace with the increase in corporate profits. If corporations had been giving at the same percent of PTNI in 1976 as in the late '60s, their contribution to higher education would have amounted to roughly $700 million. The amount actually provided was about $550 million—21% less.

This decline has taken place even though both public policy and corporate self-interest strongly support higher levels of corporate giving to education. The tax laws permit a deduction for corporate contributions of up to 5% of taxable income. The courts have uniformly held that corporate support of higher education is not only entirely legal, but also the responsibility of a progressive corporation.

U.S. Business Corporations
Pretax Net Income and Support of Education



Sources: U.S. Department of Commerce, Bureau of Economic Analysis; Council for Financial Aid to Education.

Corporate giving a "duty"

In the famous A. P. Smith case of 1953, which established the legality of corporate contributions, the Court declared, in part: ". . . the contribution here in question is towards a cause which is intimately tied into the preservation of American business and the American way of life. Such giving may be called incidental power, but when it is considered in its essential character, it may well be regarded as a major, though unwritten, corporate power. It is even more than that. In the Court's view of the case, it amounts to a solemn duty."

This "duty" is even more solemn today. For it is obvious that if our colleges and universities are to retain their excellence, their diversity, and freedom —if indeed, in many cases, they are to survive— they must have substantially increased voluntary support from all sources.

And, an opportunity for leadership

The emergency in higher education provides a special opportunity for the corporate community to enhance its public image and serve its own vital interests by taking the lead in raising the level of voluntary support for higher education.

As a first step in assuming this leadership role, corporations should recognize the need to reevaluate their current programs of educational support and to consider adopting goals for giving to higher education that would increase their contribution on a planned basis over a period of years.

The adoption of goals for giving is suggested simply because it is a familiar technique in American business for stimulating self-examination and the achievement of long-term objectives. Because goal-setting is so much a part of modern business operations, few companies will have any difficulty in determining educational-aid goals that will be compatible with their own special circumstances and corporate objectives. However, since most goals are based upon competitive and marketing figures, here are some data which may serve, if not as actual corporate goals in themselves, at least as a taking-off place for thinking about them.

Some suggested goals for giving

A. *The National Average:* In 1976 corporations gave, on the average, 0.35% of their pretax net income to higher education. Companies far below this may want to set goals to raise their giving to this level. Companies at or above this level should consider other suggested goals.

B. *Past Performance:* As previously noted, in 1969 corporations gave on the average 0.45% of their pretax net income to higher education. Aiming to equal past performance does not seem like an unreasonable objective.

C. *Share of Total Contributions:* Nationally, corporations devote 40% of their total contributions budget to higher education. Companies well below this proportion may want to set goals for reaching it—or even better, reaching 50%. This goal is supported by the fact that corporate giving to higher education is among the most justifiable of all corporate contributions. Indeed, it is normally characterized as an investment rather than a charitable contribution. It is an investment in the preparation of educated manpower, in the basic research underlying many major corporate products, and in the educated society so essential to a high standard of living and a favorable climate for corporate growth and success. When Milton Eisenhower was president of Johns Hopkins University, he pointed out that: "Higher education and business are basically interdependent. One needs money to produce educated men, and the other needs educated men to produce money."

D. *Per College Graduate Hired:* Setting an annual goal based on the number of college-trained graduates hired during the year would be tying corporate giving to a most tangible benefit. Corporate support of education in 1976 amounted to about $1,100 per college graduate entering business employment. This could be a goal for companies well below it. Others might aim at reaching an average of $2,800 per college-trained new employee by 1982. Why $2,800 by 1982? Because, if all corporations were contributing this much per hiree by 1982, it is estimated that corporate support of higher education would then represent the same share of educational costs that it did in the early 1950s.

E. *Allowing for Inflation:* Another way to reach the same share of educational support as in the '50s would be to increase giving 7% each year, plus the inflation factor. This was the actual rate of the growth of corporate support of higher education between 1949 and 1969. Assuming a reasonable rate of inflation, this is a realistic target for enlightened management.

F. *1% of Profits Before Taxes:* Modified appropriately for certain situations, such as insurance, banking and extractive industries, the 1% concept is a goal first promulgated by a group of Cleveland businessmen some years ago. Since then, many of them have worked their way up to this goal, and there are a substantial number of companies in the country that surpass it.

G. *2% of Profits Before Taxes for All Giving:* This is the goal recommended by the blue-ribbon Commission on Private Philanthropy and Public Needs (better known as the Filer Commission after its chairman, John H. Filer, chairman of Aetna Life and Casualty). "The record of giving by the cor-

porate world as a whole in the mid-'70s is, the Commission feels, quite clear, and it is ultimately an unimpressive and inadequate one," the report stated. "In the conviction that corporate giving both can and should be substantially increased, the Commission recommends that corporations set as a minimum goal, to be reached no later than 1980, the giving to charitable purposes of 2 percent of pretax net income." (The present level of corporate giving for all purposes hovers around the 1% mark; thus, the Commission's proposal would double the percent of pretax net income they are now giving to philanthropy. Since CFAE believes that higher education will continue to receive its fair share of any corporate increase in total giving, CFAE is happy to endorse the Filer Commission's recommendation.)

Any of these suggested goals, constructively applied over the next five years, would increase total corporate giving to education from the current level of $600 million (1977 estimate) to approximately $1.5 billion in 1982. Such an increase would play a substantial role in averting, or at least ameliorating, the drastic restructuring now confronting education.

In speaking of the financial crisis facing higher education, Dr. McGill, president of Columbia University, said: "Our descendants will either honor us or deprecate us, depending upon how we conduct ourselves in seeking and finding the required solutions."

One corporate goal should be to have our descendants honor us.

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The Council for Financial Aid to Education (CFAE), a nonprofit service organization, promotes increased voluntary support of higher education by all sources, but especially by the corporate community.

CFAE was founded in 1952 by five prominent business leaders, the chairmen of United States Steel, General Motors, Exxon, Container Corporation and Armstrong Cork. The chairmen were Irving S. Olds, Alfred P. Sloan, Jr., Frank W. Abrams, Walter P. Paepcke and Henning W. Prentis.

CFAE staff members call personally upon hundreds of top-echelon businessmen every year to explain the financial needs of higher education and to enlist corporate support in meeting them. CFAE also conducts seminars and offers counseling services for corporate and college administrators. It publishes an annual report on voluntary support received by colleges and universities, an annual report on corporate support of higher education, special studies in fields related to educational philanthropy, "How to . . ." manuals and other materials designed to broaden the base of educational support.

CFAE sponsors the nationwide public service advertising campaign, "Give to the college of your choice," through the Advertising Council. This campaign has elicited as much as $25 million worth of free time and space from the media in a single year.

CFAE itself neither solicits nor disburses funds for higher education. Originally funded by four major foundations—the Carnegie Corporation of New York, the Ford Foundation, the Rockefeller

Foundation and the Alfred P. Sloan Foundation—CFAE now draws its support from more than 375 leading American corporations.

In this, its twenty-fifth anniversary year, CFAE is calling for a national reaffirmation of the importance of higher education to the future of our country and a rededication to meeting more of the needs of our colleges and universities through voluntary support.

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